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RECOVERY OF COMMISSARY AND NONAPPROPRIATED
FUND REAL PROPERTY INVESTMENTS AT DEFENSE
BASE REALIGNMENT AND CLOSURE INSTALLATIONS

Report No. D-2000-155

June 23, 2000

Office of the Inspector General
Department of Defense

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Acronyms

BRAC
NAF

Base Realignment and Closure
Nonappropriated Fund



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2885

June 23, 2000

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (FORCE
MANAGEMENT POLICY)
NAVAL INSPECTOR GENERAL
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Audit Report on Recovery of Commissary and Nonappropriated Fund
Real Property Investments at Defense Base Realignment and Closure
Installations (Report No. D-2000-155)

We are providing this report for review and comment. This audit was performed in response to a request from the Assistant Secretary of Defense (Force Management Policy). We considered management comments on a draft of this report in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. We request additional comments from the Army on the amount deposited into the Reserve Account by August 22, 2000.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Joseph P. Doyle at (703) 604-9348 (DSN 664-9348) (jdoyle@dodig.osd.mil) or Mr. Michael J. Tully at (703) 604-9347 (DSN 664-9347) (mtully@dodig.osd.mil). See Appendix B for the report distribution. The audit team members are listed inside the back cover.

A handwritten signature in black ink, reading "Robert J. Lieberman", is positioned above the printed name.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. D-2000-155

(D1999CK-0097, formerly 9CK-5017)

June 23, 2000

Recovery of Commissary and Nonappropriated Fund Real Property Investments at Defense Base Realignment and Closure Installations

Executive Summary

Introduction. The audit was requested by the Assistant Secretary of Defense (Force Management Policy). The Inspector General, DoD was asked to determine if the Services were in compliance with section 2906(d) of Public Law 101-510 (as amended). Section 2906(d), "Disposal or Transfer of Commissary Stores and Property Purchased with Nonappropriated Funds," states that if real property acquired, constructed, or improved with commissary or nonappropriated funds is disposed of in connection with the closure or realignment of a military installation, a portion of the proceeds shall be deposited in a Reserve Account.

Objectives. The audit objective was to determine DoD compliance with Public Law 101-510, section 2906(d). We also reviewed the management control program as it related to the audit objective.

Results. The Army and Navy Base Realignment and Closure offices did not deposit all proceeds from the transfer or disposal of commissary or nonappropriated fund real property into the Reserve Account. As a result, DoD was unable to use \$5.8 million for acquisition, construction, and improvements on commissary stores and nonappropriated fund real property and facilities. The Air Force was in compliance with section 2906(d) of Public Law 101-510. For details of the audit results, see the Finding section, and see Appendix A for details on the management control program.

Corrective Action Taken. During the audit, the Navy implemented internal procedures to comply with section 2906(d) of Public Law 101-510.

Summary of Recommendations. We recommend that the Army develop internal procedures to comply with section 2906(d) of Public Law 101-510, and deposit an estimated \$3.6 million into the Reserve Account. We recommend that the Navy deposit approximately \$2.2 million into the Reserve Account.

Management Comments. The Army concurred with the finding and recommendation, and stated they will determine the amount due to the Reserve Account and make the correct payment prior to June 30, 2000. The Army disagreed that there was a material weakness in management controls, stating that the management controls covering accounting functions ensure that the nonappropriated fund payments are properly

recorded. The Army stated it has included a change in the draft annual assurance statement that addresses the disposition of land sale revenues, which incorporate any payments due to the nonappropriated fund [Reserve] Account. The Navy concurred with depositing the funds from the transfer or disposal of commissary and nonappropriated fund real property into the Treasury Reserve Account. A discussion of management comments is in the Finding section of the report and the complete text is in the Management Comments section.

Audit Response. We disagree with the Army's position that there was not a material management control weakness. However, the Army's actions are responsive to the recommendation and should preclude future failures to make correct payments, so the issue is moot. In response to the final report, we request that the Army advise us of the amount deposited into the Reserve Account by August 22, 2000.

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Background

The audit was requested by the Assistant Secretary of Defense (Force Management Policy). We were requested to determine if the Services were in compliance with Public Law 101-510, section 2906(d), "Disposal or Transfer of Commissary Stores and Property Purchased with Nonappropriated Funds."

Public Law. Section 2906(d) of Public Law 101-510 (as amended) states:

"If any real property or facility acquired, constructed, or improved (in whole or in part) with commissary store funds or nonappropriated funds is transferred or disposed of in connection with the closure or realignment of a military installation under this part, a portion of the proceeds of the transfer or other disposal of property on that installation shall be deposited in the reserve account established under section 204(b)(4)(C) of the Defense Authorization Amendments and Base Closure and Realignment Act (10 United States Code 2687 note). The amount so deposited shall be equal to the depreciated value of the investment made with such funds in the acquisition, construction, or improvement of that particular real property or facility The Secretary [of Defense] may use amounts in the account (in such an aggregate amount as is provided in advance in appropriation Acts) for the purpose of acquiring, constructing, and improving commissary stores; and real property and facilities for nonappropriated fund instrumentalities."

Reserve Account Deposit Determination. The Defense Commissary Agency; Army and Air Force Exchange Service; Navy Exchange Service Command; and Morale, Welfare and Recreation offices are supposed to provide the Service Base Realignment and Closure (BRAC) offices with the depreciated values of their real property investments at each BRAC installation. The real property values aid the BRAC offices in determining how much should be deposited into the Reserve Account from proceeds received from the sale or transfer of commissary and nonappropriated fund (NAF) real property on BRAC installations. The BRAC offices should inform the Defense Commissary Agency; Army and Air Force Exchange Service; Navy Exchange Service Command; and Morale, Welfare and Recreation offices of the amount of funds deposited into the Treasury Reserve Account 97X5195.1 (the Reserve Account).

Objectives

The audit objective was to determine DoD compliance with Public Law 101-510, section 2906(d), "Disposal or Transfer of Commissary Stores and Property Purchased with Nonappropriated Funds." We also reviewed the management control program as it related to the audit objective. See Appendix A for a discussion of the audit process, review of the management control program, and prior coverage.

Recovery of Real Property Investment

The Army and Navy BRAC offices did not deposit all the proceeds from the transfer or disposal of commissaries or nonappropriated fund real property into the Reserve Account. This occurred because the Army and Navy did not have procedures in place to ensure compliance with section 2906(d) of Public Law 101-510 (as amended). As a result, DoD was unable to use \$5.8 million for acquisition, construction, and improvements on commissary stores and NAF real property and facilities.

Deposit of Proceeds

Proceeds. As of December 31, 1999, the Army and Navy had not deposited all proceeds from the transfer or disposal of commissary and NAF real property into the Reserve Account. The Army BRAC Office had not deposited an estimated \$3.6 million in proceeds from the transfer or disposal of Army and Air Force Exchange Service NAF real property into the Reserve Account. The Army BRAC Office had deposited \$8 million into the Reserve Account from the transfer or disposal of Army Morale, Welfare and Recreation NAF real property. The Navy BRAC Office had not deposited approximately \$2.3 million in proceeds from the transfer or disposal of commissary and NAF real property into the Reserve Account. As of December 31, 1999, the Air Force Base Conversion Agency had deposited \$11.9 million into the Reserve Account from the transfer or disposal of commissary and NAF real property.

Internal Procedures. As of July 1999, the Army and Navy BRAC offices had not implemented internal procedures to ensure compliance with Public Law 101-510. On November 18, 1997, the Deputy Under Secretary of Defense (Industrial Affairs and Installations) requested that the Army, Navy and Air Force provide the Assistant Secretary of Defense (Force Management Policy) with a copy of the internal procedures established to ensure compliance with the Public Law. As of July 1999, Force Management Policy had received internal procedures from only the Air Force Base Conversion Agency.

Army. The Army did not have any internal procedures in place to ensure compliance with the Public Law. Army BRAC Office personnel stated they were not aware that the Army and Air Force Exchange Service had depreciated values for NAF real property investments transferred or disposed of in connection with the closure or realignment of a military installation. The Army should implement procedures to ensure compliance with the Public Law, and deposit an estimated \$3.6 million received for the transfer or disposal of Army and Air Force Exchange Service NAF real property into the Reserve Account.

Navy. The Navy had only draft internal procedures in place as of July 1999. However, during the audit, Navy took corrective action and formalized and implemented internal procedures to ensure compliance with the Public Law, and deposited \$49,000 into the Reserve Account. The Navy should continue to follow its procedures and deposit approximately \$2.2 million of additional proceeds into the Reserve Account.

Funds Available. DoD was unable to use \$5.8 million because the Army and Navy did not have internal procedures in place to ensure compliance with section 2906(d) of Public Law 101-510. The \$5.8 million could be put to better use for acquisition, construction, and improvements on commissary stores and NAF real property and facilities.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Army Assistant Chief of Staff for Installation Management develop internal procedures to ensure compliance with section 2906(d) of Public Law 101-510, and deposit an estimated \$3.6 million from the transfer or disposal of commissary and nonappropriated fund real property into Treasury Reserve Account 97X5195.1.

Management Comments. The Army concurred and stated they will determine the amount due to the Reserve Account and make the correct payment prior to June 30, 2000. The Army disagreed that there was a material weakness in management controls, commenting that the management controls covering accounting functions ensure that the nonappropriated fund payments are properly recorded. The Army stated it has included a change in the draft annual assurance statement that addresses the disposition of land sale revenues, which incorporate any payments due to the nonappropriated fund [Reserve] Account.

Audit Response. Although the Army concurred with the recommendation, we disagree with the Army's position that there is not a material management control weakness. However, the Army's actions are considered responsive to the recommendation. Since the Army is confirming the amount due to the Reserve Account, we request that the Army provide comments on the amount deposited into the Reserve Account by August 22, 2000, in response to the final report.

2. We recommend that the Commander, Naval Facilities Engineering Command, deposit approximately \$2.2 million from the transfer or disposal of commissary and nonappropriated fund real property into Treasury Reserve Account 97X5195.1.

Management Comments. The Navy concurred and stated that it deposited approximately \$2.2 million from the transfer or disposal of commissary and nonappropriated fund real property into the Treasury Reserve Account.

Appendix A. Audit Process

Scope and Methodology

Work Performed. We interviewed personnel at Service BRAC and Morale Welfare and Recreation offices, the Defense Commissary Agency, the Army and Air Force Exchange Service, and the Navy Exchange Service Command to evaluate compliance with section 2906(d) of Public Law 101-510. We reviewed FY 1999 real property inventories to identify commissary and NAF real property investments. We reviewed FY 1998 through FY 2000 Funding Authorizations, Cash Collection Vouchers, as well as Vouchers and Schedules of Withdrawals and Credits to determine the amount of proceeds deposited into the Reserve Account. We interviewed officials responsible for management controls to identify controls over the proceeds received from the transfer or sale of commissary and NAF property.

Limitation to Scope. We were unable to validate the depreciated value of commissaries and NAF real property because source documentation was not retained for most of the real property.

General Accounting Office High Risk Area. The General Accounting Office has identified several high risk areas in the Department of Defense. This report provides coverage of the Defense Financial Management high risk area.

Audit Type, Dates, and Standards. We performed this economy and efficiency audit from July 1999 through March 2000 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We did not use computer-processed data to perform this audit. We included tests of management controls considered necessary.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD. Further details are available upon request.

Management Control Program

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of the Management Control Program. We reviewed the adequacy of management controls over the deposit of BRAC proceeds resulting from the disposal of commissary or NAF real property into the Reserve Account. We reviewed management's self-evaluation applicable to those controls.

Adequacy of Management Controls. We identified a material management control weakness as defined by DoD Instruction 5010.40. Management controls over the deposit of BRAC proceeds into the Reserve Account were not adequate to ensure compliance with the Public Law. All recommendations, if implemented, could result in potential monetary benefits of \$5.8 million. A copy of the report will be provided to the senior officials responsible for management controls in the Army and Navy.

Adequacy of Management's Self-Evaluation. Even though Army and Navy BRAC officials performed self-evaluations, they did not identify the material management control weakness identified by the audit because the assessable units were too broad to provide visibility to the deposit of BRAC proceeds into the Reserve Account.

Prior Coverage

Air Force Audit Agency, Project 98051029, "Base Capital Improvement Fund Facility Investments," August 25, 1998.

Appendix B. Report Distribution

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Deputy Comptroller (Program/Budget)
Assistant Secretary of Defense (Force Management Policy)
Director, Defense Logistics Studies Information Exchange

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
Auditor General, Department of the Army

Department of the Navy

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Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
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House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Management, Information, and Technology,
Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International
Relations, Committee on Government Reform

Department of the Army Comments



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
ASSISTANT CHIEF OF STAFF FOR INSTALLATION MANAGEMENT
800 ARMY PENTAGON
WASHINGTON DC 20310-0600
30 MAY 2000

DAIM-BO (5-10c)

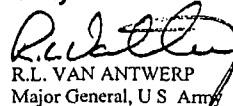
MEMORANDUM THRU U.S. ARMY AUDIT AGENCY, ORGANIZATIONAL
EFFECTIVENESS, 3101 PARK CENTER DRIVE,
ALEXANDRIA, VA 22302

FOR DEPARTMENT OF DEFENSE, INSPECTOR GENERAL, 400 ARMY NAVY
DRIVE, ARLINGTON, VA 22202

SUBJECT: Audit on Recovery of Commissary and Nonappropriated Fund Real Property
Investments at Defense Base Realignment and Closure Installations (Project No. D1999-
D000CK-0097)

1. The Army concurs with comment and requests that the following comments be incorporated into the subject draft audit report prior to final publication. The Army finds the report factual in content, however the lack of management controls finding is misleading in the conclusion that lack of a specific reference to the deposit of BRAC proceeds into the Reserve Account constitutes a material weakness. The Army believes that the management controls covering accounting functions ensure that the NAF payments are properly recorded within the current systems. The Army does recognize that additional clarification reference land sale receipts and disposition of these funds is needed in the management controls Annual Assurance Statement
2. The Army has included this change in the draft annual assurance statement that is scheduled to be signed in August 2000. This statement addresses the disposition of all land sale revenues, which will incorporate any payments due the NAF accounts
3. The Army is current with all NAF payments to MWR activities and the Defense Commissary Agency. The Army will continue to make NAF payments upon receipt of any additional proceeds from installations with undepreciated NAF assets. The Army does recognize a potential liability to AAFES for payment of undepreciated assets at Fort Ben Harrison, Cameron Station, and Fort Sheridan. The Army is committed to confirming this information and making the correct payment prior to 30 June 2000
4. Point of contact for this action is Mark M. Jones, 703-695-9507

VR,


R.L. VAN ANTWERP
Major General, U.S. Army

Assistant Chief of Staff
for Installation Management

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Department of the Navy Comments



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(MANPOWER AND RESERVE AFFAIRS)
1000 NAVY PENTAGON
WASHINGTON, DC 20350-1000

MAY 16 2000

MEMORANDUM FOR THE ASSISTANT SECRETARY OF DEFENSE (FORCE
MANAGEMENT POLICY)

SUBJECT: Audit Report on Recovery of Commissary and
Nonappropriated Fund Real Property Investments at
Defense Base Realignment and Closure Installations

The Department of the Navy (DoN) concurs with the subject draft report recommendation that the Commander, Naval Facilities Engineering Command, deposit approximately \$2.2 million from the transfer or disposal of commissary and nonappropriated fund real property into the Treasury Reserve Account. The attached letter of April 20, 2000 from the Commander, Naval Facilities Engineering Command, indicates that the transfer of \$2.2 million has been completed.

As noted in the draft report, DoN has formalized and implemented internal procedures to ensure compliance with Section 2906(d) of Public Law 101-510.

Karen S. Heath

KAREN S. HEATH
Principal Deputy

Attachment:
As stated

Copy to:
ASN (FM&C)
ASN (I&E)
COMNAVFACENGCOM

15-19-00 1009:10 IN

COPY TO DODIG 23 MAY 00



DEPARTMENT OF THE NAVY

NAVAL FACILITIES ENGINEERING COMMAND
WASHINGTON NAVY YARD
1322 PATTERSON AVENUE SE SUITE 1000
WASHINGTON DC 20374-5065

IN REPLY REFER TO

7500
IG2/00-36
20 April 2000

From: Commander, Naval Facilities Engineering Command
To: Assistant Secretary of the Navy (M&RA)

Subj: DODIG DRAFT REPORT: Recovery of Commissary and Nonappropriated Fund Real
Property Investments at Defense Base Realignment (D1999-D000CK-0097/9CK-5017)

Encl: (1) CERPS Transfer of Funds

1. Recommendation (2) of the above subject audit recommended the Commander, Naval Facilities Engineering Command, deposit approximately \$2.2 million from the transfer or disposal of commissary and nonappropriated real property into Treasury Reserve Account 97X5195.1.
2. Enclosure (1) identifies the transactions that Naval Facilities Engineering Command processed, to transfer \$2.2 million into the Treasury Reserve Account.
3. My staff point of contact is Mr. Kenneth Jackson at (202) 685-9112 or DSN 325-9112.


R. MELLO
Inspector General

Copy to:
NAVINGEN (NIG-04)

Audit Team Members

The Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report.

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